



March 16, 2006

Ms. Jennifer J. Johnson  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551

RE: Docket No. OP-1248

Dear Ms. Johnson:

Gateway Bank & Trust Company is pleased to have the opportunity to comment on the proposed guidance on sound risk management practices in commercial real estate lending.

While I agree that concentrations in commercial real estate should require attention, my concern is that the proposed approach to the issue is broad and too restrictive.

My first comment is that the proposed capital thresholds appear to be too restrictive. Adherence to these capital restrictions would have a disproportionate impact on community banks, placing the banks at a competitive disadvantage with larger banks. A move such as this could cause some banks in limited markets to diversify toward portfolios with a potentially higher risk profile than these real estate secured loans. Furthermore, banks that appear to be well capitalized in other areas may seem as undercapitalized in terms of commercial real estate. I would recommend that a more reasonable approach would be to increase the thresholds to 200% and 350%, respectively.

Secondly, the guidance is broad in scope and does not account for differences in market conditions within the banking industry. The risk parameters within one region are simply not the same as that of other regions.

Finally, the definition of commercial real estate is also broad and wide-ranging. The risk profiles within the loan categories are inconsistent. An example being that of 1-4 family construction loans to individuals with permanent takeouts, and non-speculative construction loans to builders. Other loans that would be included are operating of credit of lines to established companies secured by commercial real estate. In my opinion, these loan types plainly do not have the same risk parameters as a development loan or a raw land loan.

In summary, this guidance will unfairly impact community banks, giving them a competitive disadvantage in what many would consider to be a profitable and safe business line. I strongly urge you to consider further modifications to the proposed guidelines.

Sincerely,

J. Frank Horne  
Sr. Executive Vice President